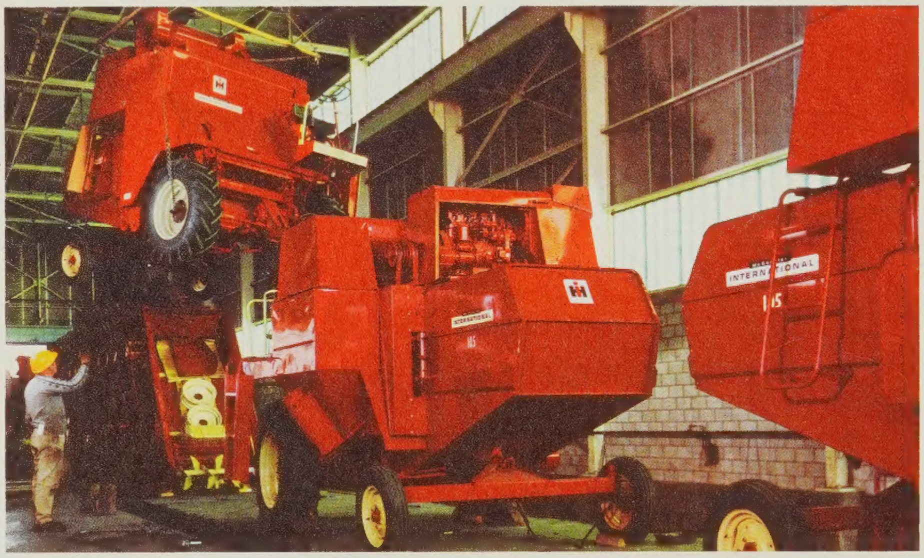
Lele J

International Harvester Company of Canada, Limited **ANNUAL REPORT 1966**

Truck men at the International truck plant in Chatham, Ontario, put the finishing touches to a DF-480 diesel, the newest addition to the line.

Hamilton Works produces the 3414 wheeled tractor, one of the most recent additions to the Company's complete line of industrial equipment.



Among the many lines of farm equipment manufactured at Hamilton Works is the new 105 combine.

The Company's plant at Candiac, Quebec, is headquarters for the Construction Equipment Division, and manufacturing center for Hough rubber-tired loaders, dozers and logging equipment.

Designed and built at Hamilton Works, the 500 crawler is among many International products exported to world-wide markets.

International Harvester Company of Canada, Limited

ANNUAL REPORT 1966 *year ended October 31, 1966*

FACTS AT A GLANCE

	1966	1965
Sales	$245,739,000	$213,606,000
Net income	$ 10,207,000	$ 9,790,000
Dividends paid	$ 5,640,000	$ 7,700,000
Net income for year retained	$ 4,567,000	$ 2,090,000
Taxes, federal, provincial and local	$ 19,504,000	$ 20,464,000
Capital expenditures	$ 5,755,000	$ 4,020,000
Provision for depreciation	$ 3,213,000	$ 2,791,000
Long-term debt	$ 5,000,000	$ 5,400,000
Equity capital at end of year	$ 81,361,000	$ 76,794,000
Average number of employees	7,515	6,653
Compensation paid employees	$ 45,814,000	$ 36,649,000

International Harvester Company of Canada, Limited

DIRECTORS AND OFFICERS *at December 31, 1966*

BOARD OF DIRECTORS

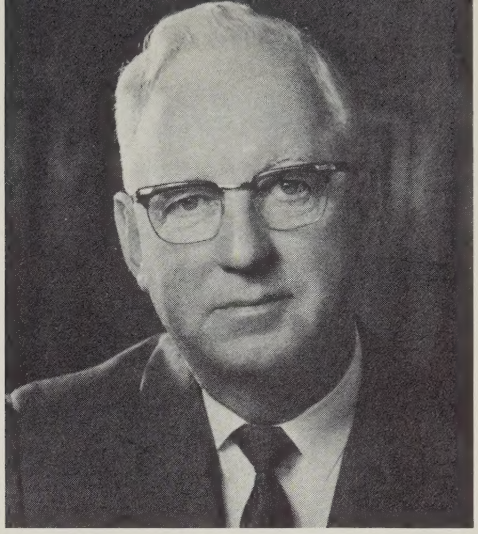
Charles C. Brannan
Ralph M. Buzard
William B. Gay
James J. Harrington
Brooks McCormick
William B. McIlvaine, Jr.
Daryl B. Oldaker
W. Norman Smith
Omer G. Voss
John W. D. Wright

OFFICERS

Charles C. Brannan	*President*
W. Duncan Drummond	*Vice President, Engineering*
William R. Fleming	*Vice President, Sales*
William B. Gay	*Vice President, Administrative Services*
William B. McIlvaine, Jr.	*Vice President, Construction Equipment Division*
James J. Harrington	*Comptroller*
W. Norman Smith	*Treasurer*
Earle L. Edmonds	*Secretary*

OTHER EXECUTIVES

Kenneth E. Forrest	*Manager, Motor Truck Sales*
A. Keith Hibbard	*Manager, Service Parts*
Charles J. Munro	*Manager, Farm and Industrial Equipment Sales*
Lawrence J. Murphy	*Manager, Credits and Collections*
Emerson A. Welles	*Manager, Manufacturing*
Charles W. Wolfard	*Manager, Supply and Inventory*



THE PRESIDENT'S LETTER

A new record high in sales volume of $245,739,000 was established for our 1966 fiscal year. The relatively high level of Canada's agricultural and industrial economy in 1965 continued throughout all of 1966. It brought with it reasonable increases in volume in all product lines sold in Canada. Export sales, primarily agricultural machinery to the United States, increased considerably more, both in dollars and as a percentage, than the increase in sales within Canada.

Net income passed $10,000,000 but did not increase in proportion to sales. Increased costs of wages and salaries, higher priced services, higher costs of purchased raw materials and components, all contributed to higher costs of manufacture and distribution. Because of competitive and governmental pressures, only a small portion of these increases could be recovered through selling price adjustments. An already shrinking margin of profit had to absorb the difference, leaving a net income this year of 4.2 per cent to sales compared with 4.6 per cent in 1965.

Sales and net income figures are on a new consolidated basis. Figures for prior years, as shown later in the report, have been adjusted to put them on a comparable basis.

It is anticipated that the general level of our economy will continue to improve but at a somewhat slower rate. As a result, our prospects for sales in 1967 are still promising but the picture is not as clear as it was a year ago.

Many of our customers require financing. The tightening money market and constantly increasing interest rates imposed upon those who need financial accommodation are making that financing more difficult and costly to acquire.

We are making every effort to introduce new and more effective controls over all phases of our business, starting from the original planning stage and carrying through production, selling and distribution. We wish to ensure that our customers—farmers, truckers, heavy equipment operators—have the tools they need at prices they can afford to pay and which will leave a reasonable return for our Company.

A twelve-page insert, readily removable from the center of this report, covers highlights in the development of International Harvester products from pre-Confederation days up to this, the beginning of Canada's Centennial Year.

The Board of Directors and all members of management join with me in expressing our thanks and appreciation to the thousands of International Harvester employees, distributors and dealers throughout Canada whose efforts and co-operation made possible our 1966 results. We believe 1967 will show improvement in both sales volume and profit.

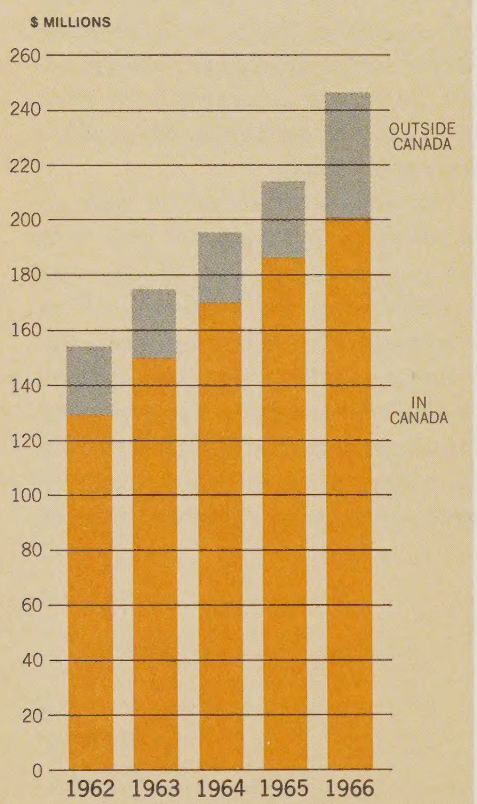
C. C. Brannan
President

January 12, 1967

REVIEW OF OPERATIONS

This report by International Harvester Company of Canada, Limited of 1966 operations is made by its management and presented with the approval of the Board of Directors. Our 1965 Annual Report advised that, effective January 1, 1966, the business and assets of our wholly-owned subsidiary, Houghco Products Ltd., would be consolidated with International Harvester Company of Canada, Limited. A further change this year shows the International Harvester Credit Corporation of Canada Limited's full equity value (instead of the Company's investment in this subsidiary) as an investment on the Statement of Financial Condition; its entire net income (instead of the dividends which it paid to the Company) is combined with that of the Company; and its accumulated net income retained is combined with the Company's accumulated net income retained. Statements reporting the results of prior years have been reconstituted to reflect similar procedures so that proper comparisons may be made.

NET SALES



Sales during the 1966 fiscal year showed a 15 per cent increase over 1965.

SALES

Sales for the fiscal year ended October 31, 1966 were $245,739,000, an increase of $32,133,000 or 15 per cent over 1965 and constituted an all-time high for the fourth consecutive year. Reasonable increases varying from 5 per cent to 10 per cent were shown in all product lines sold in Canada, but the largest gain was in the export field, primarily in shipments of agricultural machinery and equipment to the United States.

Our lines of product are under continuous review to provide the quality and efficiency required by our customers to maintain Canada's economic level at acceptable standards. Our own prospects for sales seem good, although it must be kept in mind that a large portion of our volume is dependent not only on commercial and industrial levels of activity but also on climatic conditions which determine agricultural production.

NET INCOME

Net income of the Company was $10,207,000 in 1966, a slight increase over the $9,790,000 earned in 1965.

Expansion programs at Hamilton and Chatham provide new and more modern facilities, permitting more efficient manufacturing practices and better handling of materials. Resulting cost reductions, however, have not been sufficient to offset the increases in everything we buy—labour, material, distribution costs and other expenses. Nor can they offset the many production interruptions, complete or partial, caused by inability of our suppliers to meet their schedules to us.

Settlements on a three-year basis were made with our major unions in 1965, but only affected the cost of our operations for a portion of that year. The full effect was felt in 1966 and further adjustments will be forthcoming in 1967.

FINANCE

The volume of business transacted by International Harvester Credit Corporation of Canada Limited increased substantially during 1966. It was considered desirable for the International Harvester Company of Canada, Limited, as of February 1, 1966, to make a further investment of $1,000,000 in the Credit Corporation. Major financing requirements were met within the resources of the Corporation, including an increase in subordinated indebtedness of $2,695,000 ($2,500,000 U.S.) due September 30, 1971 at 7¾ per cent. The increase in equity and in subordinated debt reduces the reliance placed on the short-term money market as a source of funds.

Wholesale notes acquired by the Credit Corporation amounted to $148,365,000 in 1966 compared with $135,023,000 in 1965, an increase of 9.9 per cent. Retail

note acquisitions were up 24.7 per cent and stood at $28,225,000 compared with $22,626,000 in 1965.

The largest increase in wholesale acquisitions was in farm equipment, reflecting an increase in dealer inventories to a more adequate level. Retail paper increases were in the motor truck field, mainly on trucks sold directly by our own retail branches, and on the sale of construction equipment and the Hough line.

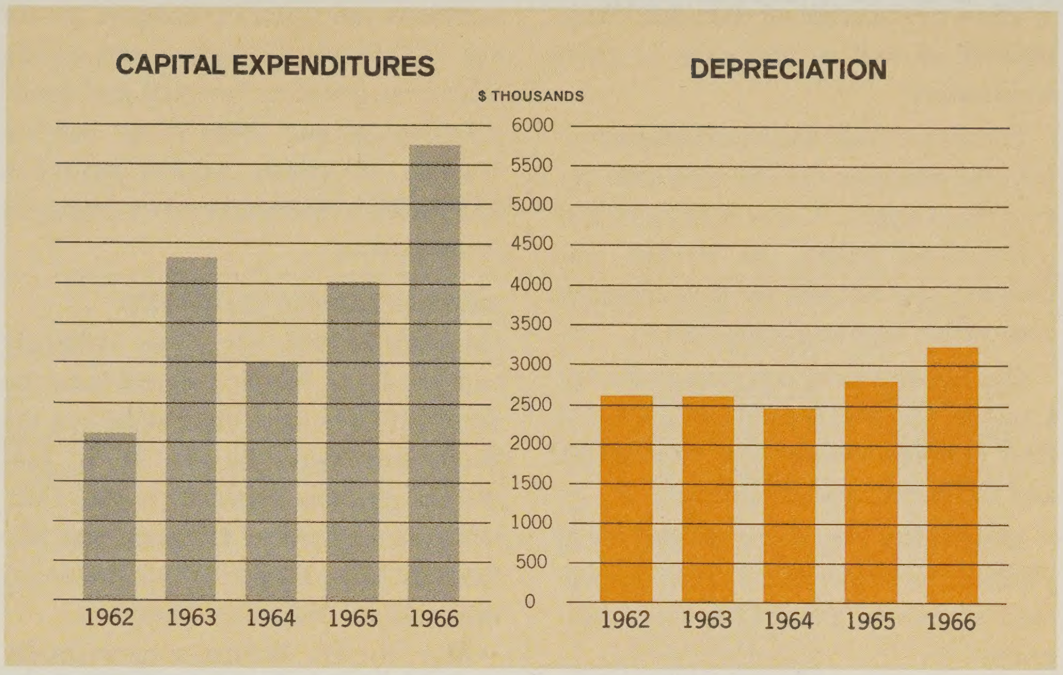
Losses on both wholesale and retail receivables continue at a very modest level. It is believed that the Reserve for Losses of $1,157,000 is more than adequate to cover potential future losses on existing receivables.

Retail financing by our customers should continue to increase during 1967 but it is believed that wholesale requirements will show little change.

WORKING CAPITAL

The working capital of the Company amounted to $44,613,000 at October 31, 1966, a decrease of $85,000 during the year. An analysis of that decrease follows:

Sources of Increase:	
Net Income	$10,207,000
Deferred credit—federal & provincial income taxes	144,000
Provision for depreciation of buildings, machinery and equipment	3,213,000
Sales of land, buildings, machinery and equipment, etc.	178,000
Total	$13,742,000
Decreases due to:	
Dividends paid	$ 5,640,000
Expenditures for land, buildings, machinery and equipment	5,755,000
Increase in other assets	475,000
Reduction in long-term notes payable	400,000
Investment in finance subsidiary	1,000,000
Increase in equity in net assets of finance subsidiary	557,000
Total	$13,827,000
Decrease in working capital during 1966	$ 85,000



INVENTORIES

The Company's total inventory at October 31, 1966 was $54,262,000, an increase of $6,846,000 over the $47,416,000 on hand October 31, 1965. An intentional build-up of inventories at Hamilton Works took place during the latter months of 1966 to permit the leveling out of manufacturing schedules and to provide for increased demand for agricultural implements in time for season of use.

NEW PRODUCT DEVELOPMENT AND ENGINEERING

The most basic factor in our business is the matter of product acceptance. The Company's efforts continue, not only in basic and advanced engineering, but in factory workmanship and quality control, to ensure that our products are the best we can produce.

The new 500 series crawler tractor, announced late last year, has had good acceptance in both Canada and the United States. Potential volume for this year continues at a high level.

Two new self-propelled windrowers, series 275 and 375, have been developed and tooled. These have been specifically designed for the vast hay growing areas of the United States and Canada.

The new 105-13 ft. self-propelled combine has been placed in production. Its acceptance has also been good.

Three new models of grain drills were released as well as new sizes of grain windrowers.

The motor truck line was strengthened with the release of the CO-4000 with our own diesel engine. A new diesel-powered conventional model, the DF-480, was designed and released for heavy logging and certain highway applications.

Our construction equipment plant at Candiac, Quebec, is producing two new PAY loaders—the H-65C articulated and the H-50C with rigid frame.

Major plans are being implemented at Chatham in connection with the government-sponsored automotive trade program.

FACILITIES

$4,000,000 was expended during 1966 in new construction, primarily at manufacturing plants. A new $800,000 painting system was installed at Chatham, and at Hamilton work is progressing rapidly on a 250,000 sq. ft. expansion for major manufacturing and assembly. This addition will cost more than $4,500,000 when completed in the late spring of 1967 and will permit further extensive demolition of old and inefficient multi-story buildings. Our new facilities at Saskatoon, including a complete farm equipment district office as well as a motor truck branch, were officially opened November 28, 1966.

EMPLOYMENT

After a sharp build-up at the beginning of the year, over-all employment has held steady at a level higher than last year. Average employment for the 12 months was 7,515 compared with 6,653 in 1965.

Every effort is being made to maintain a constant level of production in terms of man hours. This has meant many changes in production schedules but has helped materially in keeping a steady level of employment. Demand has been such that overtime and other excess costs continue to be heavy.

Total compensation paid all employees increased to $45,814,000 in 1966, compared with the $36,649,000 paid in 1965. The figures include amounts paid for vacations and statutory holidays but do not include the Company cost of life insurance, pensions, hospital and medical coverage and other fringe benefits which, in 1966, added another $5,770,000 to the total cost of employee compensation.

ORGANIZATION CHANGES

On April 7, 1966, Mr. F. B. Mattingly and Mr. D. G. Moyer resigned from the Board of Directors. Their places on the Board were taken by Mr. W. B. McIlvaine, Jr., Vice President of our Construction Equipment Division, and Mr. Omer G. Voss, Executive Vice President, International Harvester Company.

Mr. W. D. Willows, previously Manager, Motor Truck Sales, requested a return to district operations and was appointed Motor Truck District Manager at Toronto effective January 15, 1966.

Effective the same date, Mr. K. E. Forrest, formerly Manager, Farm and Industrial Equipment Sales, was appointed Manager, Motor Truck Sales.

Also on the same date, Mr. C. J. Munro, who had previously been Supervisor, Farm and Industrial Tractor and Equipment Sales, was appointed Manager, Farm and Industrial Equipment Sales.

Mr. W. R. Fleming, formerly Director of Sales, was elected Vice President in charge of Sales, effective June 30, 1966.

Mr. J. D. Abell was appointed Manager, Hamilton Works on October 17, 1966 and was succeeded as Manager, Manufacturing by Mr. Emerson A. Welles on November 1, 1966. Mr. Welles was previously Manager, Manufacturing of the Overseas Division of the International Harvester Company.

Also on November 1, 1966, Mr. W. D. Drummond, Director of Engineering, was elected a Vice President and continues in charge of all engineering activities.

Effective December 31, 1966, Mr. W. B. Gay resigned as Vice President in charge of Administrative Services and as a Director of our Company to accept retirement after more than 41 years of International Harvester service.

STATEMENT OF INCOME *for the years ended October 31, 1966 and 1965*

	1966	1965
NET SALES		
To dealers and users in Canada	$200,889,411	$186,507,356
To International Harvester Company	42,545,476	24,132,003
To other affiliated companies and jobbers	2,303,940	2,966,383
Total	245,738,827	213,605,742
DEDUCT		
Cost of goods sold	205,812,762	174,007,611
Selling and administrative expenses	19,341,576	17,534,599
Total	225,154,338	191,542,210
INCOME FROM OPERATIONS	20,584,489	22,063,532
OTHER INCOME CREDITS AND *CHARGES*		
Net income of finance subsidiary—Note 2	1,256,994	1,126,002
Interest earned	401,200	594,067
Interest paid	*381,421*	*423,030*
Charges for financing services on wholesale notes sold to subsidiary	*4,066,442*	*3,657,548*
Other credits and *charges*—(net)	*86,097*	*589,344*
Total	*2,875,766*	*2,949,853*
INCOME BEFORE PROVISION FOR INCOME TAXES	17,708,723	19,113,679
PROVISION FOR INCOME TAXES—Note 3	*7,501,503*	*9,323,907*
NET INCOME	$ 10,207,220	$ 9,789,772

SUMMARY OF INCOME RETAINED *for the years ended October 31, 1966 and 1965*

	1966	1965
BALANCE AT BEGINNING OF YEAR	$ 61,793,620	$ 59,703,848
NET INCOME FOR THE YEAR	10,207,220	9,789,772
	72,000,840	69,493,620
DEDUCT CASH DIVIDENDS	5,640,000	7,700,000
BALANCE AT END OF YEAR	$ 66,360,840	$ 61,793,620

The notes appearing on pages 8 and 9 are an integral part of the financial statements.

STATEMENT OF FINANCIAL CONDITION OCTOBER 31, 1966 AND 1965

ASSETS

	1966	1965
CURRENT ASSETS		
Cash	$ 145,693	$ 147,214
Demand notes receivable from finance subsidiary	490,000	11,450,000
Receivables		
Trade accounts	9,191,924	9,892,796
Miscellaneous	1,192,138	789,605
Due from affiliated companies	803,934	113,583
Due from finance subsidiary	622,847	—
Inventories—Note 1	54,262,032	47,416,205
Total current assets	66,708,568	69,809,403
INVESTMENT IN FINANCE SUBSIDIARY—EQUITY IN NET ASSETS—Note 2	13,122,094	11,565,150
OTHER ASSETS	1,598,393	1,123,775
PROPERTY		
Real estate, machinery and equipment—at cost	57,116,076	53,145,975
Less accumulated depreciation	29,437,812	27,832,170
Net property	27,678,264	25,313,805
TOTAL ASSETS	$109,107,319	$107,812,133

Approved on behalf of the Board:

C. C. BRANNAN, Director

J. J. HARRINGTON, Director

Notes to Financial Statements October 31, 1966

Note 1. INVENTORIES. Inventories are valued at the lower of cost or market, market having been considered as replacement cost, which does not exceed net realizable value.

Note 2. INVESTMENT IN FINANCE SUBSIDIARY. In order to provide a more comprehensive picture of International Harvester Company of Canada, Limited activities, the Company has decided to report henceforth on a combined basis beginning with this report.

As a consequence, the full equity value of International Harvester Credit Corporation of Canada Limited (instead of International Harvester Company of Canada, Limited's investment in this subsidiary) is shown as an investment on the Statement of Financial Condition; its entire net income (instead of dividends which it paid to the Company) is combined in the statement of income; and its accumulated income retained is combined in the summary of income retained. The Statement of Financial Condition of International Harvester Credit Corporation of Canada Limited appears on page 12.

Note 3. DEPRECIATION ON PROPERTY AND DEFERRED INCOME TAXES. Cost of Sales and Selling and Administrative Expenses include depreciation as follows: 1966—$3,212,430; 1965—$2,791,066. This depreciation has been computed by the declining balance method at rates generally calculated to absorb the cost of property during the period of its useful life.

For income tax purposes the Company has claimed capital cost allowance in excess of the depreciation recorded in the accounts. The reduction in tax

LIABILITIES AND EQUITY CAPITAL

	1966	1965
CURRENT LIABILITIES		
Bank overdraft	$ 3,018,619	$ 3,504,892
Current invoices, payrolls and accruals	14,674,221	13,432,814
Taxes payable	3,581,603	5,681,957
Current maturities of long-term debt	400,000	800,000
Due to affiliated companies	421,036	546,542
Due to finance subsidiary	—	1,144,950
Total current liabilities	22,095,479	25,111,155
LONG-TERM DEBT		
4½% note—maturing March 1, 1967 (payable in equal semi-annual instalments less instalments payable prior to end of subsequent year included in current liabilities: 1966—$400,000; 1965—$800,000)	—	400,000
5¼% note—maturing November 1, 1973 (payable in equal semi-annual instalments commencing November 1, 1967)—Note 4	5,000,000	5,000,000
Total long-term debt	5,000,000	5,400,000
DEFERRED INCOME TAXES—Note 3	651,000	507,358
EQUITY CAPITAL		
Capital Stock		
Authorized, issued and fully paid—150,000 shares of $100 each	15,000,000	15,000,000
Income retained—Note 4	66,360,840	61,793,620
Total equity capital	81,360,840	76,793,620
TOTAL LIABILITIES AND EQUITY CAPITAL	$109,107,319	$107,812,133

liability resulting from this practice (1966—$143,642; 1965—$168,496) is not credited to income but is accumulated in deferred income taxes shown separately in the Statement of Financial Condition.

Note 4. RESTRICTED RETAINED EARNINGS. Under the provisions of a loan agreement dated November 1, 1956 relating to $5,000,000 5¼% notes payable, the Company agreed not to declare or pay any dividend (other than in common stock) on any of its common shares, or to expend any money in the acquisition or redemption of any shares of its capital stock, if immediately after such action, the aggregate of all such declarations, payments and expenditures subsequent to October 31, 1955 shall exceed an amount equal to its net income accrued subsequent to that date. Of the retained earnings at October 31, 1966 approximately $35,032,000 is restricted under the foregoing provisions.

Note 5. OBLIGATIONS UNDER RETIREMENT PLANS. The Company has retirement plans in effect for eligible salaried and hourly-rated employees. The estimated unfunded liability in respect of past service benefits at October 31, 1966 was $12,700,000 which is being amortized over twenty-five years from January 1, 1964. Contributions charged to income by the Company in respect of these plans were: 1966—$2,459,589; 1965—$1,774,558.

Note 6. RECLASSIFICATIONS. The 1965 figures (which are provided in these financial statements for comparison) reflect certain reclassifications to conform with the 1966 reporting basis.

International Harvester Company of Canada, Limited

SUMMARY OF INCOME AND INCOME RETAINED FOR YEARS ENDED OCTOBER 31

	1966	1965	1964
Net sales	$245,738,827	$213,605,742	$195,384,532
Deduct:			
Cost of goods sold	205,812,762	174,007,611	156,073,329
Selling and administrative expenses	19,341,576	17,534,599	17,142,237
Total	225,154,338	191,542,210	173,215,566
Income from operations	20,584,489	22,063,532	22,168,966
Net income of finance subsidiary	1,256,994	1,126,002	1,028,967
Interest earned	401,200	594,067	531,602
Other credits and *charges* (net)	*4,533,960*	*4,669,922*	*4,036,398*
Provision for income taxes	*7,501,503*	*9,323,907*	*9,758,208*
Net income	10,207,220	9,789,772	9,934,929
Cash dividends	*5,640,000*	*7,700,000*	*5,400,000*
Pension funding tax credit adjustment	—	—	—
Income retained for year	$ 4,567,220	$ 2,089,772	$ 4,534,929

SUMMARY OF FINANCIAL CONDITION AS OF OCTOBER 31

	1966	1965	1964
ASSETS			
Current assets			
Cash	$ 145,693	$ 147,214	$ 1,078,242
Marketable securities	—	—	2,300,000
Demand notes receivable from finance subsidiary	490,000	11,450,000	5,500,000
Receivables (net)	11,810,843	10,795,984	10,017,965
Inventories	54,262,032	47,416,205	46,565,351
Total current assets	66,708,568	69,809,403	65,461,558
Investment in finance subsidiary—equity in net assets	13,122,094	11,565,150	11,339,148
Other assets	1,598,393	1,123,775	1,069,955
Property (net)	27,678,264	25,313,805	24,221,267
Total assets	$109,107,319	$107,812,133	$102,091,928
LIABILITIES AND EQUITY CAPITAL			
Current liabilities	$ 22,095,479	$ 25,111,155	$ 20,849,218
Long-term debt	5,000,000	5,400,000	6,200,000
Deferred income taxes	651,000	507,358	338,862
Provision for employees' retirement benefits	—	—	—
Capital stock	15,000,000	15,000,000	15,000,000
Income retained	66,360,840	61,793,620	59,703,848
Total liabilities and equity capital	$109,107,319	$107,812,133	$102,091,928

1963	1962	1961	1960	1959	1958	1957
$174,373,746	$153,748,168	$143,408,838	$156,332,987	$149,440,303	$119,141,084	$136,069,345
137,386,066	122,152,248	116,623,436	128,372,169	122,979,078	98,188,578	112,904,422
16,224,825	15,288,498	15,229,944	15,753,942	15,393,854	13,608,939	13,152,853
153,610,891	137,440,746	131,853,380	144,126,111	138,372,932	111,797,517	126,057,275
20,762,855	16,307,422	11,555,458	12,206,876	11,067,371	7,343,567	10,012,070
800,119	733,486	540,924	452,684	377,968	—	—
611,531	374,852	187,747	196,295	766,670	666,026	504,058
3,762,359	*3,482,928*	*3,565,274*	*3,451,891*	*3,232,080*	*1,489,203*	*1,702,272*
9,162,000	*6,821,178*	*4,067,157*	*4,317,850*	*4,071,000*	*2,972,000*	*4,241,000*
9,250,146	7,111,654	4,651,698	5,086,114	4,908,929	3,548,390	4,572,856
5,000,000	*2,600,000*	*2,500,000*	*3,500,000*	*2,800,000*	*2,800,000*	*3,000,000*
1,783,475	—	—	—	—	—	—
$ 6,033,621	$ 4,511,654	$ 2,151,698	$ 1,586,114	$ 2,108,929	$ 748,390	$ 1,572,856

$ 457,059	$ 143,680	$ 296,730	$ 82,363	$ 80,440	$ 145,742	$ 377,182
1,150,000	6,472,983	—	—	—	—	—
11,220,000	4,240,000	8,200,000	4,360,000	8,070,000	—	—
9,829,305	9,011,314	7,315,246	6,171,862	8,295,221	32,459,432	38,505,676
41,745,499	41,296,521	36,913,182	42,819,267	43,440,254	28,349,481	32,448,150
64,401,863	61,164,498	52,725,158	53,433,492	59,885,915	60,954,655	71,331,008
9,910,181	9,510,062	9,176,576	8,715,652	7,342,968	—	—
1,127,099	883,455	1,013,096	959,992	752,803	746,362	739,085
23,910,883	22,670,882	23,361,018	22,482,573	21,270,565	21,014,872	21,336,784
$ 99,350,026	$ 94,228,897	$ 86,275,848	$ 85,591,709	$ 89,252,251	$ 82,715,889	$ 93,406,877
$ 22,032,107	$ 18,622,444	$ 14,165,000	$ 14,609,896	$ 18,849,374	$ 13,423,129	$ 23,862,699
7,000,000	7,800,000	8,600,000	9,400,000	10,200,000	11,000,000	11,800,000
149,000	—	—	—	—	—	—
—	3,671,155	3,887,204	4,109,867	4,317,045	4,515,857	4,715,665
15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
55,168,919	49,135,298	44,623,644	42,471,946	40,885,832	38,776,903	38,028,513
$ 99,350,026	$ 94,228,897	$ 86,275,848	$ 85,591,709	$ 89,252,251	$ 82,715,889	$ 93,406,877

STATEMENT OF FINANCIAL CONDITION OCTOBER 31, 1966 AND 1965

ASSETS

	1966	1965
CURRENT ASSETS		
Cash	$ —	$ 36,749
Notes receivable and repossessions—Notes 1 and 2		
Notes Receivable—Wholesale	43,282,977	36,074,400
Retail	29,197,251	24,241,691
	72,480,228	60,316,091
Repossessions	80,863	31,707
	72,561,091	60,347,798
Less—Deferred discounts on wholesale notes	385,575	333,577
Unearned interest on wholesale notes	34,264	34,241
Unearned finance charges on retail notes	3,148,221	2,255,053
Allowance for losses	1,156,938	1,045,437
	4,724,998	3,668,308
Notes receivable and repossessions (net)	67,836,093	56,679,490
Due from parent company	—	1,144,950
Total current assets	67,836,093	57,861,189
PREPAID INTEREST AND OTHER ASSETS	122,810	12,718
UNAMORTIZED DEBENTURE EXPENSE	24,000	48,000
Total assets	$67,982,903	$57,921,907

LIABILITIES AND EQUITY CAPITAL

	1966	1965
CURRENT LIABILITIES		
Bank overdraft	$ 102,658	$ —
Demand notes payable—bank	6,625,000	175,000
Demand notes payable—parent company	490,000	11,450,000
Notes payable—short-term	29,928,050	20,269,225
Accrued interest on notes payable	215,890	340,552
Accounts payable	19,326	34,714
Due to parent company	622,847	—
Dealers' reserves	642,463	427,219
Taxes payable	519,262	660,047
Total current liabilities	39,165,496	33,356,757
SENIOR INDEBTEDNESS—Note 3		
5¾% Debenture Series A, due 1982	6,000,000	6,000,000
5¾% Debenture Series B, due 1984	5,000,000	5,000,000
Total senior indebtedness	11,000,000	11,000,000
SUBORDINATED INDEBTEDNESS—Note 3		
6% Note, due 1984	2,000,000	2,000,000
7¾% Note, due 1971 (U.S. $2,500,000)	2,695,313	—
Total subordinated indebtedness	4,695,313	2,000,000
EQUITY CAPITAL		
Capital Stock		
Authorized—250,000 shares of $100 each		
Issued and fully paid 100,000 shares		
(10,000 shares issued at par for cash during 1966)	10,000,000	9,000,000
Income retained	3,122,094	2,565,150
Total equity capital	13,122,094	11,565,150
Total liabilities and equity capital	$67,982,903	$57,921,907

Approved on behalf of the Board: W. N. Smith, Director
J. J. Harrington, Director

Notes to Financial Statements October 31, 1966

Note 1. The Corporation purchases notes receivable from International Harvester Company of Canada, Limited under a financing agreement. This agreement provides, on wholesale notes, for agreed upon interest income and acquisition discounts from the face value of such notes. Provision is also made for discounts on retail contracts taken at less than the Corporation's standard finance charges. The discount on wholesale notes is taken into income upon settlement of such notes and the finance charges and discounts on retail contracts are taken into income over the life of the contracts.

Note 2. At October 31, 1966 retail notes receivable included $12,208,251 maturing after October 31, 1967, of which $3,816,027 will mature after October 31, 1968, and wholesale notes included $4,330,655 which will mature after October 31, 1967, of which none will mature after October 31, 1968.

Note 3. The indentures relating to the senior and subordinated indebtedness contain among other covenants, restrictive provisions requiring net tangible assets to be maintained in excess of 120% of senior indebtedness, subordinated indebtedness not to exceed 50% of the equity capital and a limitation upon the declaration of cash dividends and the purchase, redemption or retirement of outstanding capital stock.

At October 31, 1966 there was no restriction on dividend distribution.

Self-service is a feature of the Company-owned store in Chatham, Ontario, that sells and services farm equipment, motor trucks and industrial equipment. It is one of more than a thousand dealers, distributors and company-owned retail facilities that sell International Harvester products across Canada.

International Harvester's Hamilton Works has been expanded many times since it was founded in 1903. The new assembly plant, completed just three years ago, is already being enlarged to keep pace with the demand for the Company's farm equipment. Major additions have also been recently made to the truck plant in Chatham, Ontario. The plant in Candiac, Quebec, is working to capacity producing Hough rubber-tired construction and logging equipment.

AUDITORS' REPORT

DELOITTE, PLENDER, HASKINS & SELLS
CHARTERED ACCOUNTANTS
105 MAIN STREET EAST HAMILTON, ONTARIO

To the Shareholders of
International Harvester Company of Canada, Limited:

We have examined the Statement of Financial Condition of International Harvester Company of Canada, Limited as at October 31, 1966 and the Statement of Income and Income Retained for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We have made a similar examination of the Statement of Financial Condition of the Company's wholly-owned non-consolidated finance subsidiary, International Harvester Credit Corporation of Canada Limited as at October 31, 1966.

In our opinion, the accompanying statements present fairly (a) the financial position of International Harvester Company of Canada, Limited as at October 31, 1966 and the results of its operations for the year then ended, and (b) the financial position of the Company's wholly-owned non-consolidated finance subsidiary International Harvester Credit Corporation of Canada Limited as at October 31, 1966, in accordance with generally accepted accounting principles applied, in all material respects, on a consistent basis.

Deloitte, Plender, Haskins & Sells
Auditors

December 9, 1966